

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7166

BILL NUMBER: HB 1857

DATE PREPARED: Feb 18, 2001

BILL AMENDED: Feb 15, 2001

SUBJECT: Medicaid Cost-Containment Measures.

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FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Generic Drugs Under CHIP*: This bill requires a pharmacist who fills a prescription that is covered under the Children's Health Insurance Program (CHIP) to fill the prescription with a generically equivalent drug product and inform the customer of the substitution if the substitution results in a lower price, unless the prescribing practitioner indicates that the prescription must be filled with a brand name drug.

Cost-Containment Measures for Prescription Drugs: This bill provides that reimbursement for legend drugs under Medicaid will be limited to the lowest of: (1) the federal supply schedule price; (2) the maximum allowable cost (MAC) of the drug as determined by the Health Care Financing Administration; or (3) the provider's submitted charge, representing the provider's usual and customary charge for the drug.

The bill also requires the Office of Medicaid Policy and Planning (OMPP) to establish an automated phone system for practitioners to obtain prior approval before writing a prescription for a Medicaid patient. A pharmacist is required to use the system to confirm that the patient has been approved for the drug.

The bill also makes changes to the conditions the Drug Utilization Review (DUR) Board must meet to place a single source drug on prior approval, restrict the drug in its use, or establish a drug monitoring process.

The bill requires OMPP to establish a Medicaid outpatient formulary. It requires a practitioner to obtain prior approval from OMPP before writing a prescription to a Medicaid patient for a brand name drug.

Requirements on the Risk-Based Managed Care (RBMC) Program: The bill also requires OMPP to require certain Hoosier Healthwise enrollees to enroll in the RBMC program.

Annual Evaluation: It also requires OMPP to conduct an annual evaluation on a data analysis of certain information that can be used to determine possible cost containment measures for the state's Medicaid

program.

Fraud Control Units: The Attorney General is to submit an annual report to the Select Joint Committee on Medicaid Oversight on the state Medicaid Fraud Control Unit's activities during the preceding year. It also requires the Division of Family and Children to establish a fraud control unit to investigate and prosecute claims of any violation, abuse, or fraud by recipients of Medicaid, Temporary Assistance for Needy Families (TANF), and Food Stamps and to submit an annual report to the Select Joint Committee on Medicaid Oversight on the fraud control unit's activities during the preceding year.

Effective Date: (Amended) Upon passage; July 1, 2001.

Explanation of State Expenditures: (Revised) *Generic Drugs Under CHIP:* This provision is expected to result in a reduction of state expenditures in the CHIP program by \$46,000 in FY 2002 and \$62,000 in FY 2003.

OMPP reports that there were approximately 91,000 prescriptions dispensed as brand name for children enrolled in CHIP for FY 2000 and who would be affected by this provision. The average cost reduction per prescription for generic drugs over brand name products was about \$55. Based on a state share of expenditures of 27% in the CHIP program and assuming that the CHIP program realizes half this amount in reduced drug expenditures from the substitution of generic products, the reduction in expenditures in the CHIP program is estimated to be up to be \$46,000 in FY 2002 and \$62,000 in FY 2003. Total expenditure savings, state and federal dollars, would be about \$172,000 in FY 2002 and \$229,000 in FY 2003.

Prescription drugs accounted for about 14% of CHIP expenditures in FY 2000. Generic substitution is already required in the regular Medicaid program (IC 16-42-22-10). This bill would require that this provision apply to the CHIP program, as well.

In addition, unlike the Medicaid program, the federal allotment for the CHIP program is capped. Consequently, a reduction in expenditures for prescription drugs will allow those dollars to be utilized for other services within the CHIP program.

Cost-Containment Measures for Prescription Drugs: This bill provides for several cost containment methods in the reimbursement of prescription drugs. These include: (1) maximum reimbursement of pharmacy providers for pharmaceuticals; (2) increased ability to require prior authorization; (3) an automated system for prior approval; and (4) increased ability to restrict the Medicaid drug formulary. Most of these methods have the potential for cost reduction in the Medicaid program. The automated system for prior approval will involve additional costs to implement. These additional program costs and savings are currently being determined.

Requirements on the Risk-Based Managed Care (RBMC) Program: The bill also requires new Medicaid recipients and recipients who change primary medical providers to enroll in the RBMC program. OMPP estimates cost savings in the RBMC program to be 6% compared to the fee-for-service-based Primary Care Case Management (PCCM) program.

Statewide, the PCCM program was responsible for about \$408 M in expenditures for FY 2000. Theoretically, if a 6% savings could be attained statewide, a potential of \$24 M exists. However, whether the RBMC program could achieve this level of savings in all areas of the state, rural and urban, and the amount of time required to move most recipients into the RBMC program is not known. In addition, the bill imposes "any

willing provider"-type requirements on the managed care organizations. The extent that these requirements will limit the savings obtainable through managed care is also not known.

Annual Evaluation: This bill requires OMPP to contract with an independent organization to conduct an annual evaluation and analysis of data collected by OMPP regarding services provided, providers, and recipients in the Medicaid program. The purpose of the analysis is to educate the Office and determine possible cost containment measures. The cost of a contractual arrangement will depend upon negotiations. However, a preliminary estimate was provided by OMPP to range from \$300,000 and \$500,000. (This is based on a comparison with the cost of the contract for an evaluation of the CHIP program.)

Fraud Control Units: This bill also establishes a fraud control unit in the Division of Family and Children to investigate and prosecute claims of violations, abuse, or fraud by recipients in the Medicaid, TANF, and Food Stamp programs. This provision codifies current practice.

Explanation of State Revenues: See Explanation of State Expenditures, above, regarding federal financial participation in the Medicaid program.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Family and Social Services Administration.

Local Agencies Affected:

Information Sources: Susan Preble, Legislative Liaison for FSSA, (317) 232-1149; Patty Hebenstreit, OMPP, 233-6467.